CC Docket #96-98
CCB/CPD 97-30

BellSouth Ex Parte
July 17, 1998
<u>CCB/CPD 97-30</u>

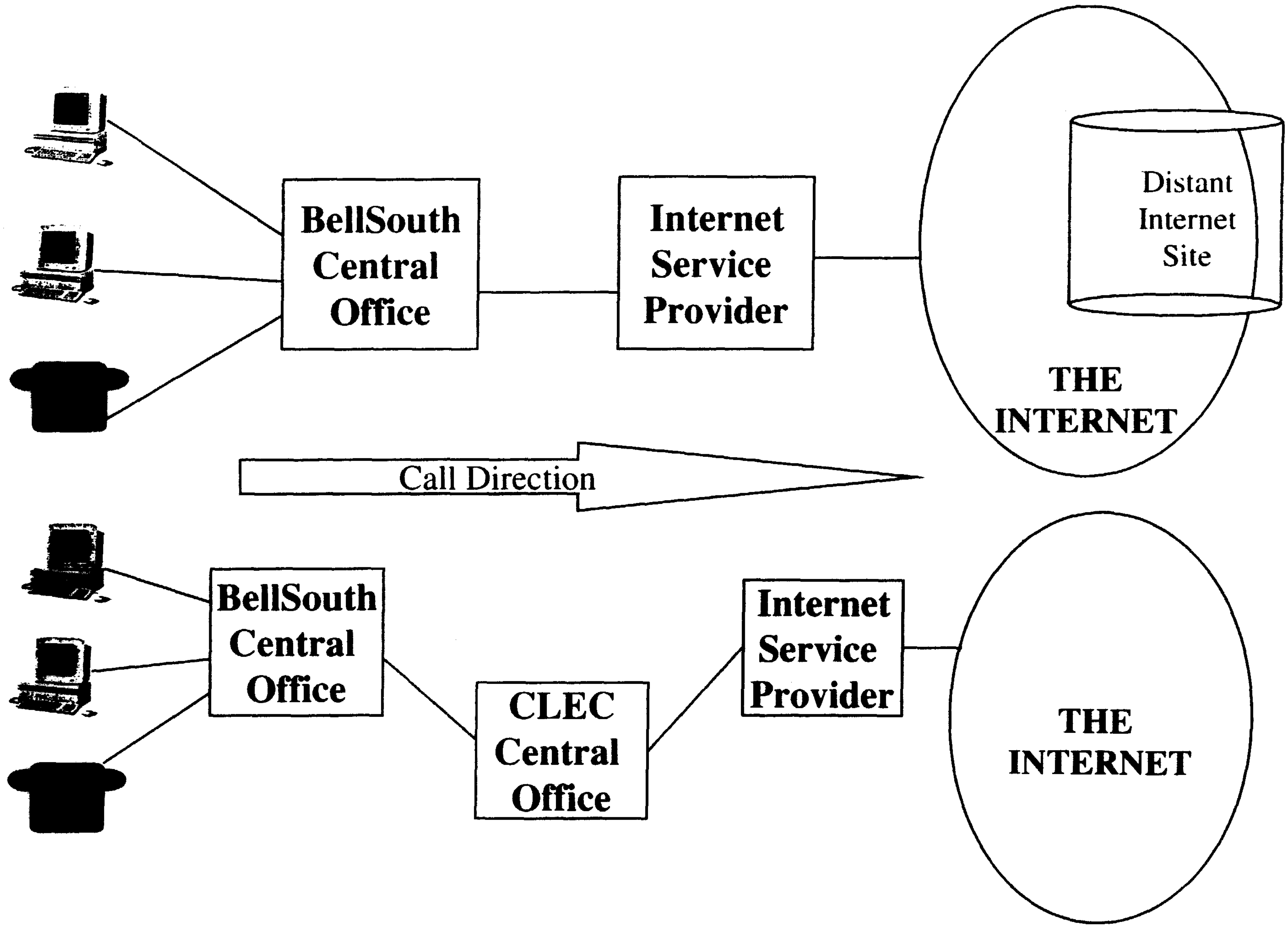
As a matter of law and policy, the Commission should *immediately* declare Internet traffic to be interstate in nature and subject to federal jurisdiction.

- Consistent with prior Commission decisions to assert authority over jurisdictionally inseparable services.

- Key to developing a national Internet policy and encouraging deployment of High Speed Internet Access Services via Section 706 proceeding.

- Promote competitive entry into local residential phone markets by discouraging uneconomic arbitrage.

- Opportunity for Commission to exert much needed leadership in resolving a problem that will only get worse over time.


BellSouth Central Office
Internet Service Provider
Distant Internet Site
THE INTERNET
Call Direction
BellSouth Central Office
CLEC Central Office
Internet Service Provider
THE INTERNET

CALLS TO THE INTERNET ARE INTERSTATE

The jurisdictional nature of a communication is based upon its end-to-end nature, not the intermediate piece parts. The FCC has repeatedly rejected attempts to divide interstate communications into two calls.

Calls from the originating LEC to an ISP may transit through an intermediate LEC, but do not terminate on the intermediate LEC's network.

BellSouth did not agree, discuss or consider Internet bound traffic as local when negotiating local interconnection agreements.

All Internet traffic should be considered within the interstate jurisdiction because the traffic is jurisdictionally inseverable.

RECIPROCAL COMPENSATION FOR INTERSTATE CALLS IS NOT IN THE PUBLIC INTEREST

The Telecommunications Act of 1996 established the reciprocal compensation mechanism to encourage local competition.

Instead of building competitive networks to serve residential exchange markets, some new entrants are expending their resources in pursuit of reciprocal compensation, adding no value to end users.

The payment of reciprocal compensation for ISP traffic would impede, not encourage local residential competition;

- Significantly reduce per line profit margins;
- For moderate to heavy Internet users, the originating carrier would often be forced to pay more compensation than it receives in revenues from the end user.

Most CLECs are either owned, partnered, or in their own right financially strong companies and do not need regulatory subsidies to prosper.

BellSouth and its customers would be harmed if BellSouth has to pay reciprocal compensation for Internet traffic.

Requiring CLECs to Pay Reciprocal Compensation on Internet Traffic Will Discourage Entry Into Local Residential Phone Markets By Significantly Reducing Per Line Profit Margins

Average Revenues Per Line From
Top 30% of BellSouth's
Residential Customers in Georgia
(Excludes InterLATA Toll)
$54.28

Profit Margin
$9.41

Sales, General & Administration
30% of Sales
$16.28

CLECs Cost of Network
Facilities Including Leased Loops,
Colocation Space, etc.
$28.59

Reciprocal Compensation Payments
Come Out of CLEC Profit Margin

Average Internet Use Per Line = 5 hrs/wk

Existing Contract <u>Rate</u>	Future Negotiated <u>Rate</u>	
1,303	1,303	Minutes of Use Per Month
x $0.01	$0.002	Per Minute Cost for Terminating Internet Traffic
= $13.03	$ 2.61	Monthly Reciprocal Compensation Per Line
= 138%	28%	of CLECs Per Line Profit Margin

If Left Unchecked, ILECs Annual Reciprocal Compensation Payments for Internet Traffic Could Easily Reach $2.6B by 2002

Year	US Internet Users (Millions)	Average Internet Usage (Hours / Week)	Annual Internet Usage (Billions of Minutes)	Reciprocal Compensation @ $.002/Minute ($ Millions)
1999	39	5	608	$1,216
2000	51	5.5	875	$1,750
2001	58	6	1086	$2,172
2002	64	6.5	1298	$2,596

Source: estats, http://www.emarketer.com

QUICK CLARIFICATION IS NEEDED FROM THE COMMISSION

Current policy will impose wholly unreasonable and unacceptably large financial liabilities on BellSouth and other ILECs in a short period of time.

Arbitrage opportunity created by current policy are beginning to seriously distort investment and marketing decisions in local markets by CLECs and ILECs alike.

Failure to assert jurisdiction over Internet traffic will severely limit the FCC's ability to encourage deployment of High Speed Internet Access Services through its Section 706 proceeding.